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CIA

SUBJECT: Can Lao Party Activities Discussed with President's Brother Ngo dinh Nhu

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On July 23 Ambassador Burbrow succeeded in bringing out many of the rumors and allegations of illegal business activities by the Can Lao Party in the course of a frank discussion with President Diem's brother and political advisor Ngo dinh Nhu. The Ambassador used the Cologrove articles as a pretext to open up the subject of the Can Lao. Heretofore the Embassy had had no legitimate reason to bring up the Party's activities except in connection with the under-invoicing of cassia.

Mr. Nhu was remarkably frank in discussing the question and gave the Ambassador a plausible story.

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Comments:

In the absence of a great deal more information it is impossible to evaluate Mr. Nhu's explanation. However, on the basis of the information we do have the Embassy is inclined to accept his statements as explaining in part the general motivations of the Party since many of the business activities in question are undoubtedly "illegal" by normal business standards. On the other hand, the opportunism of the Party, if practiced mainly for the good of the country, could well prove to have been the best course. Thus the only way to judge the Party's activities is to watch their development and remain continuously alert to any indications of serious diversions of funds into personal holdings. At this stage in Viet-Nam's development illegal practices must be judged by their degree and extent, with frequent backward glances at the state of affairs pre-Diem, in order to keep from being distracted by our own moral judgments.

State Dept. declassification & release instructions on file

Howard Elting, Jr.
Charge d'Affaires ad interim

Enclosure:

Memorandum of Conversation

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Page 1 of 1
Encl. No. 1
Disp. No. 40
From Saigon

Memorandum of Conversation

Participants: Mr. Ngo Dinh Nhu, Advisor and brother to
the President of Viet-Nam;

Ambassador Durbrow.

Date: July 25, 1959.

I opened the conversation by referring to the Colegrove articles, about which Nhu had heard but as yet not in detail. I described in general the tenor of the articles, stating that most of the accusations are fantastic and some of the statements do not involve United States aid but alleged irregularities in the GVN. I added as is always the case in such matters there is a grain of truth to many things Colegrove wrote about, although most are twisted out of context. I told Nhu I recalled certain passages which involved the GVN, himself, his wife and the President, as well as other GVN officials. I stated, for instance, that Colegrove alleged that at considerable expense to the United States a radio room was built in one of the bedrooms of the Palace, so that the President could broadcast to the nation, but that it had never been used and was now his (Mr. Nhu's) office. He made no comment. I then stated that Colegrove had alleged that a certain Major Cuu, who until two or three years ago was the head of Radio Viet-Nam, had absconded with a considerable amount of funds which Colegrove indicated were United States aid funds. I described in a few words the allegations about the taxi dancers hired by Mr. Cuu as entertainers and announcers for Radio Viet-Nam. I stated that based on my investigations it appeared that Mr. Colegrove, although he had not so stated in his articles, had considerable alleged information about the "illegal" business activities of the Can Lao Party. I added that unfortunately for a long time there were many reports and rumors dealing with this same subject which, whether true or not, would cause a considerable loss of prestige to the GVN if they should be published. I continued by stating that these rumors alleged that no one could start a business here, foreigners or Vietnamese, unless they paid considerable sums to the Can Lao Party. In other cases it is contended that if someone tries to start a business here the Party tries to take over control. I then referred to the cassia shipments to the United States and outlined in some detail the bad impression that under-invoicing had caused in official circles in the United States. I added that unfortunately a large number of businessmen here and in the States were cognizant of this under-invoicing, and I pointed out that one of the principal concerns on the part of the United States officials was that apparently the extra profits gained from the under-invoicing, as well as the regular profits, did not revert to the benefit of the Vietnamese national economy as a whole. On the other hand, it appeared that all the money earned from these actions went to individuals.

Nhu took up from there and talked for over half an hour to explain why the Party, with the government's concurrence, had been given special benefits to engage in the export of cassia. This was done solely for the purpose of building up this trade and inducing people to take the risks involved, both physical and financial, in order to re-establish the Vietnamese cassia industry. He pointed

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out that the cassia trees were located in the high mountain area, in Central Viet-Nam, where the montagnards have been infiltrated by the Viet-Cong. Therefore the collection of cassia bark is very dangerous and the harvesters of cassia ran considerable physical risks in entering the area. Furthermore, since once the cassia bark has been taken off, the tree dies, it was essential to leave enough profit to the entrepreneurs to permit them to carry out the government's orders that for each cassia tree stripped at least one other tree must be planted. He stated that for the reasons given it was essential to give special inducements during the early stages of the development of the industry, but now that the industry was going it was no longer necessary to use such inducement to entrepreneurs to get them to enter this trade. He volunteered that the cassia trade had been given exclusively to the Can Lao Party and added that because they were a dedicated nationalistic group they were willing to take the physical and financial risks involved, while private entrepreneurs would not have been willing to take these risks. Nhu then went into a long explanation of how profits from the "commercial section of the Can Lao Party" were used. He said, for instance, if the Party had not been able to make considerable profits from the cassia trade and other commercial ventures which were quite profitable, it would not have been possible to get and maintain the Yugoslav-built coastwise steamers particularly needed in Viet-Nam. Not only did these steamers cost a considerable amount of money, but it was necessary during the initial stages of their operations here to pay dollar salaries to the foreign crews operating the boats.

He then explained that unfortunately in newly-developed countries the people did not understand the long-range advantages of setting up profitable industries. He stated that the people in these countries have not been permitted to have any business or managerial training and were only familiar with quick turn-over operations such as buying land, building houses and selling them quickly at a profit. It was for these reasons that the government has to take the lead in establishing industries and profitable trades by investing money in such enterprises. Since the government does not have too much capital, it had to turn to the small but dedicated group of the Can Lao Party and the members of the NRM, who are willing to take the risks and make the sacrifices to help build up industry. Since there is very little free capital in the country, the government is forced to grant privileges to the Can Lao Party and the NRM members to make fairly high profits initially in order to get the necessary capital to invest in the new enterprises. Nhu claimed that now that it is becoming well-known in Viet-Nam one can invest in profitable enterprises through the NRM, more people are joining the Party, even those from the opposition. Nhu said that this was an encouraging fact and he added that even many newly-naturalized Chinese are joining the Party in order to be in a position to invest in Party-sponsored enterprises. He added that while the government naturally hoped for some foreign investment, their principal concern was to develop a Vietnamese entrepreneur class who would understand the intricacies of capital formation and help to build up the industrial economy of the country. He reiterated, as he has in the past, that in those enterprises in which the government has invested fifty-one percent or more they would, in the not too distant future, sell their shares to the public once the public became aware that through such investment they could have steady long-term incomes. In regard to the Party shares, he contended that more and more of the capital for Party enterprises was coming from individuals and therefore automatically these enterprises would be non-government. He stated that in newly-developed countries

it is essential to develop as large a base as possible of dedicated individuals who are willing to work for and with the government in order to build up a solid economy for the future. He pointed out that there are many Vietnamese engineers, other professionals and technicians who work for comparatively low salaries ~~for~~ ~~compensation~~ ~~for~~ the government when they could earn twice as much or more by working for Shell, Stanvac or other private concerns. While the government hopes to raise the salaries of these people as soon as successful enterprises are making sufficient profits, the government had to count on the pecuniary sacrifices of these devoted persons in order to make progress in the economic field.

I told Nhu that his explanation of the commercial operation of the Party was very interesting, and I hoped that they would be helpful in building up the country. I added, however, that unfortunately for a long time we had been receiving reports that gave quite a different picture of the Party operations. I reiterated that we had heard—and foreign correspondents had heard many reports—true or not, that the Party was trying to monopolize all business and industry in the country. I pointed out that if this impression persists it would be impossible to attract any foreign capital to Viet-Nam and the good reputation already enjoyed by the GVN as a government trying to gain its economic independence as soon as possible with American aid would be lost, and not only would Congress question the advisability of giving additional aid to Viet-Nam but any prospective investors would bypass Viet-Nam.

Nhu replied that these reports were put out primarily by the Dai Viet opposition, the Communists and other opposition elements. According to Nhu, the Dai Viet and other opposition parties except the Communists are not parties in any sense of the word. They are composed of a few score of disgruntled persons who have no appeal to the people, have no backing among the population and who believe by unobjective criticism of the government they can gain sympathy primarily from foreign sources—French, American or others. Nhu is convinced that correspondents such as Colegrove and others are sought out by the Dai Viet, Communists and other opposition elements and fed erroneous information in the hope that they can gain prestige and publicity from these sources and perhaps eventually gain enough backing to overthrow the regime and take control.

He then outlined how he had operated himself under the Bao Dai regime to set up his party, together with its newspaper, which although in opposition to the government was never suppressed. He claimed that he was most careful not to criticize the entire regime but to make only objective criticisms when the government deserved it and to praise them when they were doing something constructive for the country. Nhu claimed he had recently called in opposition leaders and advised them to operate in the same way. He pointed out that the Communists had learned this trick in which they never criticized an entire government or an entire people but picked and chose among the leaders who are subject to critical propaganda blasts and praised others in the government who allegedly do not see eye to eye with the "misguided" leaders.